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FISCAL IMPACT STATEMENT

LS 6784 | **NOTE PREPARED:** Jan 20, 2004
BILL NUMBER: SB 487 | **BILL AMENDED:**

SUBJECT: Taxation of foundries and machine shops.

FIRST AUTHOR: Sen. Meeks R | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill expands to foundries and machine shops (including turned product and screw, nut, and bolt manufacturing establishments) the equipment valuation rules that apply to integrated steel mills and oil refinery/petrochemical companies.

Effective Date: January 1, 2004 (retroactive).

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts from business personal property to other property cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any increase in PTRC or Homestead Credit payments would ultimately impact the state General Fund. The increase in state expense for these credits is estimated at $36,000 in FY 2005 (partial year) and $106,600 per year in years following.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at $360 in FY 2005 and $720 per year thereafter.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current Department of Local Government Finance rules, business personal property is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of most depreciable property in one of four “pools , depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate “percent good factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer’s depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

A fifth pool exists for use in valuing integrated steel mill and oil refinery/petrochemical equipment at the option of the taxpayer. The value of property in this pool is not subject to the 30% floor. All of the taxpayer’s property may be valued under Pool 5 if at least 50% of the total reported property’s cost is attributable to qualifying equipment. Taxpayers that elect to use Pool 5 may not claim any obsolescence adjustment.

Beginning with taxes paid in CY 2005, this bill would permit foundries and machine shops to use Pool 5 to value their depreciable property.

The following table contains the depreciation schedule for both the four pool system and Pool 5.

Personal Property Depreciation Schedule					
	Pool 1	**Pool 2**	**Pool 3**	**Pool 4**	**Pool 5**
Age of Property	**1-4 Year Life**	**5-8 Year Life**	**9-12 Year Life**	**13+ Year Life**	**All**
Year 1	65%	40%	40%	40%	40%
Year 2	50%	56%	60%	60%	56%
Year 3	35%	42%	55%	63%	42%
Year 4	20%	32%	45%	54%	32%
Year 5	20%	24%	37%	46%	24%
Year 6	20%	18%	30%	40%	18%
Year 7	20%	15%	25%	34%	15%
Year 8	20%	15%	20%	29%	10%
Year 9	20%	15%	16%	25%	10%
Year 10	20%	15%	12%	21%	10%
Year 11	20%	15%	10%	15%	10%
Year 12	20%	15%	10%	10%	10%
Year 13+	20%	15%	10%	5%	10%
	Total value of Pools 1-4 must be at least 30% of total cost (30% Floor)				No 30% Floor

According to a database on information regarding business personal property tax returns with an assessed value over $150,000, 32 foundries and 117 machine shops were identified through their listed nature of business. Of these 149 taxpayer returns, 120 would benefit from using Pool 5. These taxpayers' assessed values would be reduced by a collective $30 M. This AV reduction would cause a tax shift ranging from the taxpayers using the new pool to all taxpayers of about $595,000 in CY 2005 and $577,000 in CY 2006.

It should be noted that some additional, unidentified taxpayers would also qualify for this deduction. The shift estimates and state costs presented above representing the 149 identified foundries and machine shops should be considered the minimum impact of this bill.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; Department of Natural Resources.

Local Agencies Affected: Local assessors.

Information Sources: Department of Local Government Finance; Local Government Database.

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